



SEN. GEORGE RUNNER (RET.)

MEMBER
STATE BOARD OF EQUALIZATION
CALIFORNIA'S TAX BOARD

July 5, 2012

Honorable Tom J. Bordonaro, Jr.
President, California Assessors' Association
1055 Monterey Street, Suite D-360
San Luis Obispo, CA 93408-1003

Dear Mr. Bordonaro:

At the annual meeting of the Board Members and County Assessors held last October 19, 2011, there was a panel discussion regarding embedded software. Many discussions have occurred subsequent to the October meeting:

- **December 1, 2011:** The Board's Property Taxes staff met with Cal Tax representatives to discuss the issue of embedded software. The result of the meeting was that the Cal Tax representatives were to attempt to determine what data might be available to conduct a special study on one category of embedded software.
- **January 6, 2012:** Board staff met with representatives from Ernst & Young, LLP, regarding comments made by one of their staff members at the October 19, 2011 meeting on methods to value embedded software.
- **April 18, 2012:** Board staff attended a meeting of the California Assessors' Association Ad Hoc Committee on Embedded Software at the Central/Southern California Assessors' Association Conference.
- **May 10, 2012:** Board staff had a follow-up meeting with the Cal Tax representatives who participated in the December 1, 2011 meeting. The agreement at this second meeting was that the Board should approach the California Assessors' Association to explore the possibility of developing guidelines relative to what should be the standard of evidence for claiming an exemption from property taxation for embedded software. Additionally, the Cal Tax representatives acknowledged that they could not identify any concrete data that might be used for documenting embedded software.
- **June 8, 2012:** Board staff was invited to and attended another meeting of the California Assessors' Association Ad Hoc Committee on Embedded Software.

As Chair of the Board's Property Taxes Committee, I would like to express my support for the formation of a working group to study the issue of embedded software, with the ultimate goal of developing standardized guidelines. It has been suggested, and we agree, that the working group should be comprised of Board staff, County Assessors' staff who are knowledgeable about this issue, cost accountants from the Institute of Certified Cost and Management Accountants, software engineers, members of academia with knowledge of software technology, and any other experts that will assist the working group in formulating acceptable guidelines. The group should also include representatives from industry who possess relevant technological or cost accounting expertise.

I would like to thank the California Assessors' Association for inviting Board staff to attend their Ad Hoc Committee meetings. Continued interaction with all interested parties will work toward finding a mutual resolution to this very difficult assessment issue.

Sincerely,

GEORGE RUNNER
SECOND DISTRICT

cc: Honorable Lawrence E. Stone
Chair, CAA Ad Hoc Committee on Embedded Software
Mr. David Gau
Deputy Director, Property & Special Taxes Department
Mr. Dean Kinnee
Chief, County-Assessed Properties Division